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(From the February 13, 2006 issue of <u>Deloitte</u>'s *Washington Bulletin*, a periodic update of legal and regulatory developments relating to Employee Benefits.)

It's Official! PBGC Premiums Increase Dramatically for 2006 Plan Years; Indexing for Wage Inflation Begins in 2007

Effective for 2006 plan years, the Pension Benefit Guaranty Corporation (PBGC) flat-rate premium is \$30 per participant for single-employer plans and \$8 per participant for multi-employer plans. Large plans that have already filed their estimated premiums will need to submit an amended filing by the estimated premium due date, or February 28, 2006 for calendar year plans.

Congress recently approved a budget reconciliation bill (S. 1932) that increases PBGC flat-rate premiums for single- and multi-employer plans, provides for automatic annual adjustments to such rates for wage inflation, and establishes a new \$1,250 per participant premium payable by plan sponsors that terminate their plans during bankruptcy and certain other circumstances. The President signed the bill on February 8, 2006.

Flat-Rate Premium

The flat-rate premium increases are effective for plan years beginning after December 31, 2005. According to the PBGC's Web site, [click here], large plans that have already filed their estimated premiums using the old rate will have to submit an amended filing with the new rate. The amended filing must be submitted by the estimated premium due date.

PBGC soon will begin issuing the final 2006 filing forms and instructions (Form

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1-EZ, Form 1, Schedule A) with the updated premium rates. The PBGC also plans to begin rolling out premium e-filing for 2006 as soon as My PAA is updated to reflect the new premium rate. When that happens, plan sponsors will be able to use My PAA to submit original or amended premium e-filings for 2006. PBGC is encouraging plan sponsors to begin using the My PAA system to file premiums for 2006. The PBGC expects to issue final regulations soon that will require large plans (500 or more participants) to file premiums electronically beginning July 1, 2006.

Bankruptcy Exit Premium

As noted, the bill also establishes a new \$1,250 per participant premium for sponsors of terminated, underfunded plans. The premium applies to certain distress terminations, including those occurring as part of a Chapter 11 bankruptcy reorganization proceeding, and to PBGC-initiated terminations. The \$1,250 per participant premium is payable for each of the three years immediately following the plan termination or immediately following the plan sponsor's discharge from bankruptcy, if applicable. The premium is effective for plans terminated after December 31, 2005, or for bankruptcy filings occurring on or after October 18, 2005.

The PBGC plans to issue guidance on the exit premium in the future. In the meantime, plan sponsors subject to the exit premium should contact Deborah Murphy (1-800-736-2444, extension 3451) for guidance.

More Changes Coming?

Comprehensive pension reform legislation is still pending before Congress, and may be enacted sometime this year. That legislation may include changes to the PBGC's variable-rate premium, which was not affected by S. 1932.



The information in this *Washington Bulletin* is general in nature only and not intended to provide advice or guidance for specific situations.

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ACADEMY ALERT

PENSION AND EMPLOYEE BENEFITS 2006-PEB-3 February 10, 2006

President Bush Signs Deficit Reduction Act; Increases PBGC Premiums

On Wednesday, February 8, President Bush signed the *Deficit Reduction Omnibus Reconciliation Act of 2005* (S. 1932), a budget bill that includes an increase in the base premium employers with defined benefit pension plans pay the Pension Benefit Guaranty Corporation (PBGC).

The bill also increases the annual per-participant premium from \$19 to \$30 for single-employer plans. The annual per-participant premium for multiemployer plans will rise from \$2.60 to \$8.00. The measure will establish a new termination fee, \$1,250 per participant per year payable for three years after plan termination, for firms that transfer their underfunded plans to the PBGC.

The additional \$9.00 variable rate premium for every \$1,000 of unfunded vested benefits paid by underfunded plans remained unchanged by this legislation.

The new rates are effective for plan years beginning on or after January 1, 2006. The rates will be indexed for wage inflation beginning in 2007.

S. 1932 lowers the federal budget deficit by \$39 billion over five years. The law would cut roughly 0.3 percent of federal spending in a federal budget likely to total about \$14 trillion in five years.

The text of *S.1932* is available through the Library of Congress on-line legislative service (http://thomas.loc.gov) or by contacting Tina Getachew, legislative assistant (getachew@actuary.org). If you have any questions regarding these issues, please feel free to contact Heather Jerbi, senior pension policy analyst, by e-mail (jerbi@actuary.org).